

# **BALANCING** the **BUDGET** Fitting It All In!



**Tips & techniques  
to help juggle  
income & expenses,  
and still meet  
financial goals**

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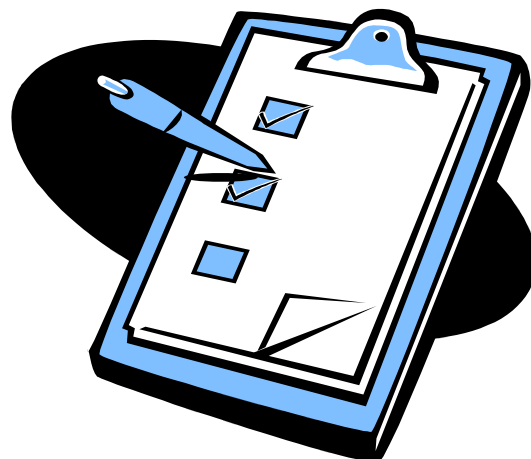
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## The **BUDGETING** **PROCESS:** How It's Done

Budgeting is an easy-to-follow step-by-step process—once you learn the reasons budgets tend to fail, and why most people give up. Follow these steps, using the rest of the packet as a resource and guide, to fool-proof your budget.



**Step #1: List Financial Goals.** What is it that guides your spending? What do you and your family want to accomplish—how do finances fit into that? Here are some examples of financial goals:

- To “make it” each month & avoid late fees
- To get or stay out of debt
- Build an emergency fund
- Build retirement savings
- Buy a nicer car
- Buy a house
- Remodel/redecorate home
- Fund children/grandchildren’s education

To help accomplish these goals, it’s good to have more specific details on how the goals will be accomplished. **See page 5** of this packet. Some of the details may need to be left blank (such as amount to save monthly) until your monthly expenses are more pinned down (**see steps 3-5**).

for figuring out how much was spent over the last few months:

- Bank or credit card statements
- Checkbook register
- Receipts

If these sources don’t provide enough details to fill in a complete budget, you may need to simply guess. For example, if you tend to go to the grocery store once a week and normally spend about \$75 per trip, list that you spend \$300 on groceries each month. If that isn’t helpful, hold off on monthly figures and go to **step 4 & 5**.


**Step #2: List Monthly Income.** Where does your income come from? Remember to include such sources as:

- Income from wages & salary from all jobs
- Child support or alimony receiving
- Food Stamps, heat assistance

Most likely income varies month to month, so this step, along with **step 3**, may need to be done every month. But once you make the original listing, it will be much easier.

**Step #3: List Monthly Expenses.** Where does your money go? For a list of expenses, **see page 6**. *Include money put into savings as an expense.*

Some expenses you will know off the top of your head, such as rent/mortgage. To make this more accurate, look at available records to see how much you usually spend. Consider these sources



**Step #4: List Non-Monthly Expenses.** Also known as “special expenses,” these are expenses that you know are coming, and that you need to pay for, but do not pay every month. A few examples could include:

- Christmas gifts, travel for Christmas, Christmas food & décor
- Other holidays
- Car registration
- Bi-yearly or quarterly insurance premiums
- Birthdays
- School registration or tuition

**See page 7** for more examples and **page 8** to make a list for your own tracking purposes. Once you have made a good listing of the coming year, add them all up for a yearly total. Then, divide by 12 months.

This will give you a monthly figure that you should include in your monthly budget. Pay this amount every month into a separate savings account. Withdraw from that account when those irregular expenses come. Think how nice it will be when the next time your car registration comes you have the money set aside. Or when Christmas comes, there is no stress as to how you will pay for all the gifts and events—you already have the money, and it is ready to spend.

*Remember—budgeting is telling your money where to go, instead of wondering where it went.*

**Step #5: Track Spending.** Tracking does many things for you. It:


- Shows where you actually spend money
- Enables you to have a more accurate and realistic budget
- Makes you aware of areas you may overspend
- Makes you aware of expenses you may have forgotten to include in your listing of both monthly and non-monthly expenses
- Helps you realize exactly how much you spend—sometimes more, sometimes less than expected

Track for a whole month to begin with, and then just to make sure you are inline with budget each month. To track, save receipts or consider carrying a little memo pad in your purse or pocket and jot down what, where, and how much you spent. At the end of 2 weeks or so, add expenses and categorize. Put these figures on a list of expenses (**see step 3**) to project your spending for the next month. Note: if you use debit/credit cards or online bill pay often, a lot of tracking is already recorded for you.

**Step #6: Add 'em up.** Now that you have a better idea of your regular and irregular expenses, total the expenses and subtract from total income. Where do you stand monthly? You will be in one of three situations:

- Expenses exceeded income (in the negative)
  - If this is the case, see **page 9** for ideas on cutting back on expenses
- Income exceeded expenses (have money leftover)
  - If this is the case, refer to your goals and decide where you want to put your leftover money, and then include that amount routinely in your budget
  - See **step 7** for more financial management tips to protect you and enable you to succeed
- Came out exactly even

Ideally, you want to come out exactly even because your financial goals and savings were also included in your expenses (right?).



**Step #7: Fool-Proof.** In order to make your budget more or less the same from month to month, and therefore making the budget process more smooth, there are a few more things to do.

First, to protect your budget from unforeseen financial disasters in the future, **build an emergency reserve**. It's recommended to have 3-6 months of expenses in a high-yielding savings account. This should only be used for true emergencies.

Next, **include a miscellaneous category** in monthly spending for the unexpected (but not emergency) expenses, such as buying flowers for a coworker who retired, or for a small gift for your child's friend's birthday. These expenses aren't usually drastic, but having a "misc" fund can help solidify your budget and protect you from drawing from savings or going negative each month.

Finally, give you and everyone in your household **a personal allowance**. This will ease the "Mom/Dad, can I have money for..." questions, and will protect *you* from spending too much. It helps teach personal responsibility and prioritizing, and also makes budgeting not so bad when you get your own little sum of money to spend on whatever you'd like.

For example, one person told of how a \$1 a week saved his budget and his marriage. Before that allowance, he spent upwards of \$10 a week (\$520 per year) on vending machine drinks, chips and candy. Having just \$1 gave him the choice between buying the drink now or saving the money for later. He was still able to have a treat, and he saved \$468/year.

**Step #8: Keep Your Eye On The Ball.** Make sure that you follow-through with the last 7 steps, especially with your goals. Keeping your eye on the goals will help make budgeting easier.

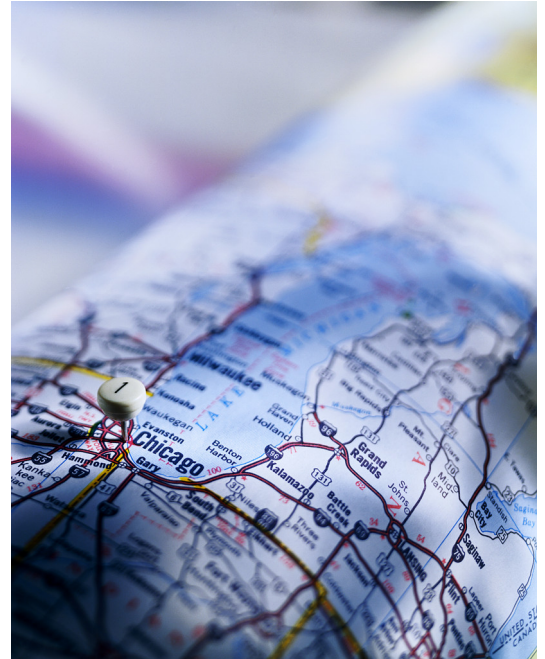
Also, keep your eye on the ball when it comes to spending. Now that you've made a list of your expenses, it's up to you to make sure that you stay within that limit. Consider the following ideas.

- **Envelope system:** place a set amount of cash in a labeled envelope. For example, you decide to spend \$30 a month on entertainment. Label an envelope "Entertainment" and place in it \$30 in cash. When that cash is gone, you are done spending money on entertainment until the next budgeting period.
- **Checkbook method:** split your checkbook into columns for categories such as groceries, gas, spending money and carry the balance down that column as well as down the far right column to make sure you don't spend more than what's in the bank. Visit this website: <http://www.montana.edu/wwwpb/pubs/mt8703.pdf> for the Montana State University Extension guide and to order pre-made checkbook registers.
- **Computer:** whether formal programs like Quicken or Microsoft Money, or self-designed spreadsheets that work best for you. It is also now possible to download statements from banks and credit cards into your Quicken/Microsoft Money programs, so most of the work is done for you.
- **Any of the above combined** or your own unique method.

## GOALS: Your **BUDGET MAP** To Guide Spending

A budget does not *take* time; it **saves** time. It doesn't *prevent* you from having what you want; it **allows you to achieve** those financial rewards you're seeking. If you're planning your own financial revolution, you need a map to guide you—your budget.

Goals can be split into three categories: Short term (to be accomplished within one year), Intermediate (1-5 years) and Long-term (more than 5 years)



### What are your financial goals?

Goal Title	Description (be specific—avoid words like “nice” “big” “about”)	Total \$ Needed	Target Date	Monthly \$ To Set Aside	Saving Strategies
Example of intermediate goal: First Home	.25 acre lot, 3 bath, 4 bedrooms, no more than 30 miles from Salt Lake City	\$37,500 for down payment (15% of \$250,000)	May 2012	\$781.25	Put pay raise into savings, when done paying off student loans put that amount into savings, use coupons/ weekly ads when grocery shopping, get summer extra summer job (save that income)

## MONTHLY BUDGET: How Much Do You Earn and Spend?

Use this spreadsheet to get started as you list where your money is and isn't going. **NOTES:** If an item comes out of your paycheck (for example, health insurance), don't list it separately.

If an item is included in another payment (for example, homeowners insurance is often included in a mortgage payment), don't list it separately. Also, if an item is not paid monthly (for example, magazine subscriptions), list it on the non-monthly/irregular expenses reminder on [page 7 \(see step #4\)](#). Ideally, your budget will be the same each month of the year. It's a good idea to make and review your budget before each month starts.

### SAMPLE MONTHLY SPENDING PLANNER

CATEGORY	DESCRIPTION	PLANNED	ACTUAL	CATEGORY	DESCRIPTION	PLANNED	ACTUAL
Net Monthly Income				Donations	Church/Charity		
				Medical	Doctor/Dentist		
					Prescriptions		
TOTAL					Hospital		
				Transportation	Gasoline		
					Maintenance		
Savings	Special/Irregular Expenses				Parking		
	Emergency			Food	Groceries		
	Retirement				School/Work Lunches		
Monthly Payments	Rent/Mortgage				Eating Out		
	Alimony/Child Support			Clothing & Personal Care	New Clothes		
	Child Care				Laundry/Dry Cleaning		
Loans	Automobile				Personal Supplies/Hair Cuts		
	Automobile			Household Maintenance	Child Care Items-Diapers & Formula		
	Furniture or Appliances				Supplies		
Credit Cards	Finance Company				Repairs		
	Installment			Miscellaneous	Entertainment		
					Gifts		
Utilities	Electricity/Water/ Sewage				Organizations, Sports, & Hobbies		
	Heating				School Expenses		
	Cable/Internet				Subscriptions-Magazines & Newspapers		
	Telephone				Vacations		
	Cell Phone				Pet Supplies		
Insurance	Automobile				Personal Allowance		
	Health				Cigarettes, Tobacco, & Alcohol		
	Life				Other		
	Renters/ Homeowners			TOTAL			
	Disability			Difference in Income and Expenses			



## NON-MONTHLY EXPENSES: Perfect Your Monthly Spending

Some expenses occur only once or twice a year. For example, car insurance premiums, property taxes, expenses related to holi-

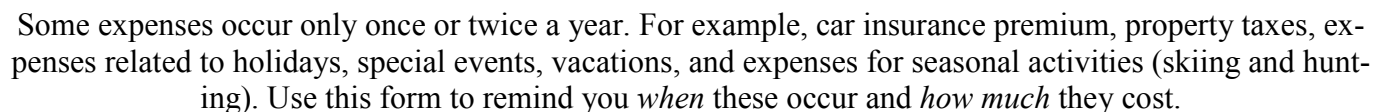
days, special events, vacations, and expenses for seasonal activities (skiing and hunting). Use this form to remind you *when* these occur and *how much* they cost. This will help make your budget more exact month to month.

### SAMPLE OF “REMINDER of SPECIAL EXPENSES”

January  Oil changes 2 @ \$25 Magazine subscription \$30  Total \$ <u>80</u>	February     Total \$	March  Bob's B-day \$25  Total \$ <u>25</u>
April  Car registration \$150 Oil changes 2 @ \$25 Medical co-pay \$15  Total \$ <u>215</u>	May  Jill's b-day \$25 Mother's Day \$20  Total \$ <u>45</u>	June  Father's Day \$20  Total \$ <u>20</u>
July  Camping trip \$100 Oil changes 2 @ \$25  Total \$ <u>150</u>	August  Mary's B-day \$25 School clothes \$150  Total \$ <u>175</u>	September  Medical co-pay \$15  Total \$ <u>15</u>
October  Oil changes 2 @ \$25 Jack's B-day \$25  Total \$ <u>50</u>	November  Thanksgiving Dinner \$100  Total \$ 100	December  Car registration \$150 Christmas \$150  Total \$ <u>300</u>

Add the total \$ amount from each month to find out how much you spend on these special expenses each year. Then, divide this amount by 12. This is how much you should be putting away each month, so that when that expense comes around, you have the money waiting to be spent. This is one thing that will save your monthly budget!

Total amount spent during the year =  $\underline{1200} \div 12 = \underline{\$100}$  Amount to save each month



January	February	March
Total \$	Total \$	Total \$
April	May	June
Total \$	Total \$	Total \$
July	August	September
Total \$	Total \$	Total \$
October	November	December
Total \$	Total \$	Total \$

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## CUTTING BACK: What is your MONKEY TRAP?

In order to catch spider monkeys, hunters in South America simply walk through the jungle and drop heavy containers on the ground. These containers have a very narrow top and a wider bottom. Inside the containers the hunters drop a special kind of nut which is particularly attractive to the monkeys. Sometime later, the spider monkeys come down from the tops of the trees, smell the nut, but the tops of the containers are so narrow they have a tight squeeze to get their hands inside. Once they grab the nut at the bottom, their fist is too large to remove it through the opening. And the container is too heavy for them to carry.



So instead of letting go of the nut, the monkeys just sit there until the hunters come back, pick them up, and throw them in a bag. The spider monkeys are not prepared to let go of a small nut in order to gain their freedom.

*What are you holding on to that may be inhibiting you from reaching your financial goals?*

### Cutting Expenses: The Step Down Principle

A simple, visual way to see your spending possibilities in many categories. The top step is the most expensive, the bottom step is the least expensive alternative.

#### Example: Going to the Movies

**\$7** (per ticket) New Release, Night Show

**\$4** (per ticket) New release, Matinee

**\$2** (per ticket) Dollar Theater

**\$1-4** (multiple people) Rental

**\$Free** (multiple people) Borrow from local library or from friends/family

For additional ideas on cutting back expenses and building savings, visit: <http://extension.usu.edu/saving/> and click on “Slashing Expenses Series”

Use this visual principle to help cut back in areas, if needed, to reach your financial goals. Try it with any category—from groceries, to eating out, to transportation. Tip: if you are used to a new release night show once a week, stepping all the way to borrowing movies may be a challenge. If going all the way to the bottom steps seems too drastic, try one step at a time for best results.



## REASONS BUDGETS FAIL: Fool Proofing Your Budget

### Budget Busters Why People Tend Not to Budget

- #1 Don't know why you need a budget
- #2 Don't know how much to plan
- #3 Too many irregular, unplanned & miscellaneous expenses
- #4 Not enough money to cover expenses
- #5 Don't know how to organize it
- #6 No money for me to spend—no fun! :(

### Solutions to Budgeting Woes (No Excuses Now!)

- #1 Make descriptive financial goals
- #2 Track your spending, and use bank or credit card statements to figure out how much you have been spending.
- #3 Use a non-monthly/irregular expenses reminder with a separate account. Have an adequate emergency fund and adequate insurance coverage. Include a miscellaneous expense fund in your monthly budget.
- #4 Utilize “Step Down Principle” and other money saving ideas. Also realize that we, as a whole, will probably never have enough. It's more about managing the money we have (no matter how little or large) and prioritizing.
- #5 Try different budgeting/tracking techniques, such as the envelope system, checkbook register, or computer programs. Experiment until you find the way that works best for you.
- #6 Give yourself (and all members of household) a personal spending allowance. This way, budgeting isn't just about paying the bills.

**MAKE IT PAINLESS.** Here are a few tips to make the above tips a little easier—so you don't even feel like you're budgeting.

- **PAY YOURSELF FIRST**—pay a pre-determined amount (even if it is only \$5) toward your goals before you pay for anything else. Have it come out of your paycheck via direct deposit.
- Make as many bills as possible **AUTOMATIC**. Most services provide the option of paying bills automatically, whether it be by charging a credit card, or pulling it out of a checking account.
- Use **CASH**. When the cash is out, there is no more spending.
- Treat **CREDIT CARDS LIKE DEBIT CARDS**—pay in full each month from your checking account and **DON'T** carry a balance. Set automatic payments as the day your statement comes out.

1. Bottled water
2. 1<sup>st</sup> car
3. 2<sup>nd</sup> car
4. Microwave
5. Boat
6. Exercise equipment
7. Cable/satellite TV
8. Credit card (one or more)
9. Jewelry
10. Health club membership
11. Winter sports (skiing, snowmobiling, etc.)
12. High-speed internet
13. 1<sup>st</sup> home
14. New shoes (one or more pairs per season)
15. Video games
16. Cell phone
17. Chocolate
18. Washing machine
19. Cosmetics
20. 2<sup>nd</sup> home/vacation property
21. Professional/college sports
22. Television
23. Music lessons for children
24. Camera
25. Holiday parties
26. Professional hair cut/style
27. Movie-theater movies
28. Movie Popcorn
29. Truck
30. Dry cleaning
31. Professional child care
32. Soccer (or other sports) for the kids
33. Clothes dryer
34. Ice cream
35. Car stereo system
36. Power tools
37. Newspaper subscription
38. BMW (or other luxury car)
39. Two (or more) car garage
40. Dishwasher
41. Vehicle air conditioning
42. Scrapbooking supplies
43. Two (or more) bathrooms
44. Big-screen TV
45. Holiday decorations
46. Magazine subscriptions
47. Computer
48. DVD player
49. Home air conditioning
50. Morning (or any other time) coffee
51. Season tickets to cultural events
52. House-cleaning service
53. Camping/Fishing/Hunting gear
54. Vacation every year
55. CD/MP3 player
56. Dog/cat
57. New clothes every Fall
58. Chips/snacks/soft drinks
59. SUV/RV
60. Dining out